ANGELS WATCH OVER THE START-UP SECTOR

It's tough being a start-up: You're too small to attract private equity or venture capital, but you won't survive without financial backing. Could an angel investor be the answer?

By Nicky Godding, Editor

Jens Tholstrup, executive chairman of Oxford Investment Opportunity Network (OION)

Government support for start-ups is in short supply, so where does a very young company find the investment to get established?

Private equity and venture capital companies are seldom interested in a young business until it's got something to show, and it can be awkward asking friends and family to invest when you can't promise they'll get their money back quickly (if at all).

Angel investors can be one answer for fledgling life sciences companies.

But Jens Tholstrup, executive chairman of Oxford Investment Opportunity Network (OION), points out that even securing angel investment is tough.

OION is one of the UK's oldest and most active business angel networks. Established in 1994 it links founders with investors at regular showcase events.

A report published in September by active investor Parkwalk and data analysis company Beauhurst, revealed that first time funding has been trending down, with almost half the number of deals completed last year on 2021 levels (120) - highlighting a potential bottleneck in early-stage funding.

It's often said that Britain is good at start-ups but less good at scale-ups. As a result, the government provides more direct support to scale-ups – but to Jens, that's the wrong way round.

"If a founder doesn't get off to a good financial start, they'll spend a lot of time trying to fundraise, and not enough focusing on the business itself. And as soon as they've raised seed investment, they have to start fund-raising for the next round."

But there is one scheme that has proved its worth for both investors and start-ups over the last 30 years, and which the government has now extended for a further decade.

The Enterprise Investment Scheme (EIS) is aimed at stimulating investment in early-stage businesses by providing attractive tax reliefs to those investing.

"In angel investment networks, finance is secured from high-net-worth individuals who benefit from the EIS scheme," explains Jens.

This works for both investor and investee. The investor gets generous tax relief, and a young business secures funding and at the same time benefits from the involvement of highly experienced businesspeople who are ready and more than willing to offer support and advice.

OION has around 500 investors across its network from all backgrounds and sectors.

But with the new government issuing dire warnings on the state of the UK economy, the risk climate for investors is more challenging than it was.

While the 10-year extension of the EIS scheme is welcome, investors are wary of other potential tax rises. This magazine will be published before the Autumn budget, but it's inevitable that the tax burden will increase.

A community of investors can deliver better results

According to Jens, the value of the EIS is often under appreciated. "The proportion of higher rate UK taxpayers taking advantage of the EIS scheme is low. More could be done to promote it, especially as it's now been given a further 10 years of life."

Angel investors seldom invest in a company alone. And it's increasingly important to them who they invest alongside.

"They also want to know how much early investment is required, when follow-on funding is likely to be needed and whether additional management expertise should be brought in," said Jens.

"A group of investors will work together in the interests of the start-up's future, especially if they're in it for the long-term.

"Angels investing in life sciences understand the often long regulatory pathways to commercialisation."

But there is good news for young companies. The Parkwalk/Beauhurst report reveals that UK spin-out investment is showing signs of recovery following a challenging year in 2023.

In the first six months of 2024, spin-outs secured more than £1 billion in funding. If this trajectory continues for the rest of the year, investment for the year could surpass 2023 levels, signalling a resurgence for the UK's most innovative companies.

While first-time funding has trended down, the report does suggest that a culture of commercialisation with successful Technology Transfer Offices has been established across the UK's university base.

Annual spin-out investment has quadrupled in 10 years rising from £514 million (2014) to an estimated £2.3 billion in 2024.

Jens is also encouraged by the flow of new spin-outs.

In the first six months of this year, the top UK university for spin-outs was, again, the University of Oxford, with 62 companies. The University of Cambridge and Imperial College London had 45 and 28 respectively, followed by the University of Bristol, with 26.

Other universities from across the region appearing in the list include the University of Southampton, which spun out 14 companies and the University of Warwick which spun out 10. The University of Surrey spun out five.

"As long as we continue to see a continued strong flow of interesting new businesses, then there will be a wide range of opportunities for our angel investors"

Angels are thinking more with their heads than their hearts, according to Jens, and that's good for both parties.

"If they've done it before, they'll know the issues.

"They will be looking for a good exit, but any gains they make they're often willing to put back into the market. So the underlying dynamics for the sector are strong.

"As long as we continue to see a strong flow of interesting new businesses, then there will be a wide range of opportunities for our angel investors."

Oxford is a very vibrant eco-system

Most of OION's investors are based in the UK, because they are taking advantage of the government's EIS scheme, but it does attract international investors too.

"Oxford is a very vibrant eco-system producing exciting technology, and global investors want a front seat here, but they are in the minority," said Jens.

"I want to encourage more diversity because overseas investors can help young companies open up a global market faster."

Key sectors attracting investment include artificial intelligence, which touches every area of spin-out activity, along with life sciences, and clean tech (or green tech), because everyone understands the importance of energy transition.

"Angel investors perhaps look at their investments more personally than larger investment houses, and like to put their money where it can have a positive societal impact," added Jens.

He urges young companies to take advantage of the well-established and sophisticated support network across Oxfordshire's scientific community.

"The value of the OION network alone is powerful. Our members support young companies through introductions into all sectors, opening doors to further funding, and just as importantly expertise in commercialising the business."

Jens urges young companies to write their pitch, hone it to the key points, keep it succinct and deploy it at every event they can.

"Regular updates to your investors, or even those who you might want to engage with in the future are also important," he added.

"Investors like to be kept informed. It's all about good communication so that when a company needs more money, the investor knows the story."

Angel investment is fundamental to a successful UK economy, according to Jens.

"The ideas and technologies that are being developed within our universities could have a materially positive impact on the future. But if young companies don't attract the funding they need to prove the science and set up a business, their ideas could fall by the wayside – or be lost overseas. And that's something that everyone should want to avoid."

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